

Message Text

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OES/SCI/BMP:AERICHMOND, JR.(DFT)

EB/CBA:JWBILLER (DRAFT)

TREASURY:MFEINBERG (DRAFT)

S/S-O:PKJOHNSON

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C O N F I D E N T I A L STATE 020532

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E.O. 11652: GDS

TAGS: USISJC, EINV, EAID, US, IS

SUBJECT: U.S.-ISRAEL JOINT COMMITTEE MEETING

1. WE ARE NOW IN POSITION TO TELL GOI WHAT WE EXPECT COULD COME OUT OF JOINT COMMITTEE MEETING. AS EARLIER INDICATED, WE ARE PROPOSING THAT MEETING BE HELD IN WASHINGTON FEBRUARY 3-4. WE REALIZE THIS IS TIGHT SCHEDULE, AND SHOULD GOI UPON REFLECTION PREFER MORE MEASURED PACE WHICH SOME FURTHER SLIPPAGE WOULD ALLOW, WE WOULD OF COURSE AGREE.

2. MAIN ACHIEVEMENTS ANNOUNCEABLE AT MEETING WOULD BE (A) AGREEMENT TO BEGIN NEGOTIATIONS IN NEAR FUTURE ON EXPANSION OF ACTIVITIES OF U.S.-ISRAEL BINATIONAL SCIENCE FOUNDATION, AND (B) READINESS TO GO AHEAD WITH LONG-STUDIED JOINT DESALTING PROJECT, SUBJECT TO CONGRESSIONAL CONSULTATIONS. CERTAIN ROUTINE MEASURES AGREED ON DURING SUBCOMMITTEE MEETINGS WOULD ALSO BE INCLUDED:
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TWO-YEAR GSA FINANCING ON SALES FROM ITS STOCKPILE OF

SURPLUS COMMODITIES, TREATY ON AVOIDANCE OF DOUBLE TAXATION, OPIC PROJECT FINANCING AND INVESTMENT PROMOTION IN ISRAEL, AND PROSPECTIVE FORMATION OF U.S.-ISRAEL INDUSTRIAL RESEARCH COUNCIL. DEPT OFF MET JANUARY 27 WITH ISRAEL EMB OFF TO DISCUSS TRADE ACT OF 1974, AND OUTLINED

PROCEDURES REQUIRED TO ESTABLISH ELIGIBILITY FOR PREFERENCES UNDER GENERALIZED SYSTEM OF PREFERENCES (REPORT SEPTTEL). FYI: EMBASSY SHOULD BE AWARE THAT ONE OF POINTS DISCUSSED DURING SUBCOMMITTEE MEETINGS WILL NOT BE INCLUDED, ISRAEL'S ELIGIBILITY TO BID ON A.I.D. OFF-SHORE PROCUREMENT, ON WHICH A SNAG HAS ARISEN. END FYI.

3. FOLLOWING COMMENTS ON "FIVE POINTS LEFT TO BE RESOLVED" AFTER SUBCOMMITTEE MEETINGS (TEL AVIV 6849) PROVIDE CURRENT STATUS.

A. FINANCING OF RAW MATERIALS FOR STOCKPILING AND OF RELATED STORAGE FACILITIES. ISRAEL SHOULD THINK IN TERMS OF SATISFYING ITS FINANCING REQUIREMENTS FROM GENEROUS ONGOING USG ASSISTANCE PROGRAMS. WE ARE NOT IN POSITION TO MAKE PROMISE TO EXEMPT ISRAEL FROM POSSIBLE FUTURE EXPORT CONTROLS ON PARTICULAR COMMODITIES. (HOWEVER, LIFTING OF CONTROLS ON EXPORT OF FERROUS SCRAP AS OF JANUARY 1 MAY HAVE TAKEN SOME OF HEAT OUT OF THIS ISSUE.) JAPAN, IRAN, AND EGYPT ARE AMONG COUNTRIES SEEKING SIMILAR ASSURANCES, WHICH COMPOUNDS PROBLEM FOR US.

B. INCREASE IN ENDOWMENT OF BSF. LANGUAGE IN PARA 2 ABOVE WAS DRAFTED TO INDICATE OUR POSITIVE ATTITUDE ON THIS ISSUE WITHOUT FORECLOSING NEGOTIATING OPTIONS. WE WILL WANT TO NEGOTIATE SEVERAL ISSUES WITH ISRAEL BESIDES QUESTION OF SIZE OF ENDOWMENT. THESE INCLUDE (1) PRESERVING VALUE OF ENDOWMENT (INFLATION IS ERODING ITS VALUE; IN EFFECT, ENDOWMENT IS BEING PROGRESSIVELY EXHAUSTED); (2) INTEREST RATE PAYABLE ON ENDOWMENT; (3) USES TO WHICH INCOME IS PUT; (4) DEPOSITARY INSTITUTION; (5) PRIVATE SOURCES OF INCREASE. CONFIDENTIAL

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C. DOUBLE TAXATION TREATY. AS AGREED IN NOVEMBER, WE EXPECT GOI TAX EXPERTS TO COME A DAY OR TWO IN ADVANCE TO REVIEW DRAFT TREATY WITH US AND PUT FINISHING TOUCHES ON IT. FOR THIS PURPOSE, TREASURY WISHES TO REVIEW DETAILED STATEMENT PROMISED BY GOI ON GRANT SYSTEM AND HOW IT WOULD OPERATE. TREASURY OFFICERS ARE PREPARED TO MEET WITH GOI TAX AUTHORITIES IN WASHINGTON ON

FRIDAY, JANUARY 31, TO REVIEW PROPOSED TREATY TREATMENT OF GRANTS AND DISCUSS FINAL DETAILS OF DRAFT TREATY TEXT.

D. REDUCTION IN PREMIUM ON OPIC WAR RISK INSURANCE. WE BELIEVE USG INTEREST IN MAINTAINING STANDARD INSURANCE RATE WORLD-WIDE OUTWEIGHS ISRAELI CONCERNS OVER DOUBLE PREMIUM. PARTICULARLY SINCE GOI DOES NOT ALLEGE THAT LOW OPIC PREMIUM CONSTITUTES OBSTACLE TO INVESTMENT AND ACKNOWLEDGES VALUE OF OPIC INSURANCE AS INVESTMENT STIMULUS, WE ARE PUZZLED BY PROMINENCE ISRAEL HAS GIVEN TO THIS ISSUE. WE THINK GOI CASE FOR REDUCTION IS WEAK AND POSSIBLY FOR TACTICAL REASONS ONLY.

E. WAIVER OF BUY AMERICAN ACT. THIS WOULD CAUSE US SUCH DIFFICULTIES THAT AFTER CAREFUL CONSIDERATION OF GOI REQUEST, WE HAVE DETERMINED THAT WE CANNOT AGREE TO GENERAL WAIVER, EVEN FOR LIMITED AMOUNT. OF COURSE, THIS DOES NOT PRECLUDE WILLINGNESS TO EXAMINE ISRAELI PROPOSALS FOR CASE-BY-CASE WAIVERS.

4. WHILE WE WILL BE MAKING THESE POINTS HERE WITH ISRAELI EMBASSY, EMBASSY SHOULD UTILIZE FOREGOING WITH GOI CONTACTS. YOU SHOULD BE CAREFUL NOT TO LEAVE ANY IMPRESSION THAT MATTERS ON WHICH WE HAVE NOT BEEN ABLE TO BE FULLY RESPONSIVE CAN BE NEGOTIATED DURING FORTHCOMING MEETING. WE HAVE GIVEN FULL AND SYMPATHETIC CONSIDERATION TO GOI REPRESENTATIONS, AND FOREGOING REPRESENTS THE POSSIBLE AT THIS TIME. GOI IS UNDOUBTEDLY AWARE THAT ACCEDING TO SOME OF ISRAEL'S REQUESTS WOULD CAUSE US SERIOUS PRECEDENTIAL DIFFICULTIES, BY OPENING US TO SIMILAR REQUESTS FROM OTHER COUNTRIES. THIS IS OLD PROBLEM WHICH GOI UNDERSTANDS, THOUGH IT MAY NOT WEIGH ISSUES AS WE DO. USG
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HAS DEMONSTRATED HELPFULNESS IN AREAS WHERE WE HAVE GREATER DISCRETION; OUR INABILITY TO ACCEDE AT THIS TIME ON THE OTHER MATTERS REFLECTS THEIR COMPLEXITY AND SHOULD BE VIEWED IN CONTEXT OF OUR OVERALL POSITIVE APPROACH TO GOI NEEDS.

5. IN ADDITION TO DISCUSSIONS WITH FINANCE MINISTRY, YOU SHOULD ASSURE THAT FOREIGN MINISTRY AWARE WE HAVE PROVIDED RESPONSE TO GOI AS SECRETARY TOLD ALLON WE WOULD DO WHEN HE WAS HERE.
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